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THE CONCORD TELEPHONE COMPANY

68 CABARRUS AVENUE, EAST
POST OFFICE BOX 227
CONCORD, NORTH CAROLINA 28026-0227

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY
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MAIL BRANCH

**ORIGINAL
FILE**

Office of the Secretary
Federal Communications Commission
Washington, DC 20554

Re: CC Docket #92-135

Dear Sir:

We have read the notice of proposed rule making regarding Regulatory Reform for local exchange carriers subject to rate of return regulation. We applaud your dual goals of (1) "Providing incentives for smaller companies to become more efficient" and (2) "Encouraging technological development." We believe you are correct that the "preferred approach" is to "permit companies to choose a plan which best fits their circumstances." We also believe that you are correct in encouraging LECs toward achieving your two goals by a plan which "promises increased rewards in the form of the potential for higher earnings and reduced administrative burdens."

We wish to address the following two areas of concern.

1. At numerous places in the NPRN, you refer to the various reduced administrative burdens and more flexible regulatory treatment which is provided to local exchange carriers of less than 50,000 lines. In several cases the NPRN states that these companies are generally locally owned providing service in only one area rather than multistate operations. Based on the most recent information I have received from the U.S. Telephone Association, there are only five of us LECs which have between 50,000 and 100,000 lines, all of which are locally owned and operate exclusively within one state. There are only four LECs with between 100,000 and 200,000 lines, two of which are locally owned and operate within one state and the third of which is locally owned and operates only within Puerto Rico. While each of these nine companies certainly has the financial resources to prepare annual cost studies and file other administrative reports, most of us lack the resources and capabilities of the large multistate holding companies. It would seem that it might be appropriate to require some intermediate level of reporting and regulatory flexibility for these mid size companies. As an example of our company situation, we have frequently considered leaving the NECA pools and filing our own tariffs in order to substantially reduce the access charges within our territory. However, the combination of the risk and the extremely burdensome reporting requirements have each time made us decide to remain in the pools.

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2. Each of the various price cap and other incentive regulation proposals seems to be based upon the implicit assumption that because all LECs have had similar regulatory environments in past years, all LECs have been operated and managed in a similar manner and with a similar level of efficiency. Based upon our observations within the industry, we believe that anyone making such an assumption is badly mistaken. On the contrary, we believe that many LECs have been operated very prudently and efficiently whereas others have not. A review of operating expenses for companies with similar operating territories and similar levels of service quality would seem to support our conclusion.

From our viewpoint, all of the price cap and other similar incentive regulation plans tend to reward those companies which have been most extravagant and wasteful in the previous years and to penalize those which have operated more efficiently. If a company has been very wasteful and inefficient with unnecessarily high operating expenses in previous years, it is much more able to cut expenses (and thereby increase its profits) without impairing service quality than is the LEC which has previously operated more efficiently and has less fat to cut. In fact, the more efficient LEC may actually see lower earnings because of the productivity factors when it has very little fat to trim.

We believe that the plans you propose could be even more effective by allowing "bonus earnings" for companies which operate with costs significantly below the national average when adjusted by a factor for service territory density. We believe that any company qualifying for such bonus earnings should first have to demonstrate that it meets the Commission's standards for service quality and technology deployment.

As an example of how this might work, companies wishing to qualify for bonus earnings might be allowed an additional $\frac{1}{4}\%$ return over and above the normal authorized return for each 10% their cost is below the national average for other carriers with similar line densities within their territories. These bonus earnings might be limited to 1% within any year and would be dependent upon certain minimum standards for service quality and technology deployment.

We believe that allowing such bonuses would encourage all LECs to become more efficient as quickly as possible rather than encouraging only the amount of improvement required to avoid sharing the extra earnings with their customers.

We appreciate the opportunity of filing these comments and would be pleased to work with a member of the Commission staff to further develop these thoughts.

Sincerely,



Michael R. Coltrane
President